

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INQUIRY INTO LOCAL COMPETITION, )  
UNIVERSAL SERVICE, AND THE NON-TRAFFIC ) ADMINISTRATIVE  
SENSITIVE ACCESS RATE ) CASE NO. 355

O R D E R

The Commission initiates this proceeding to investigate unbundling network services, number portability, local dialing parity, interconnection fees, local service resale, cost based access to poles, conduits, and rights-of-way, switched local access competition, its effect on universal service, and the potential need for changing non-traffic sensitive ("NTS") access charges. If switched local access competition is implemented, more than one carrier will be able to have a switch capable of completing a call within a local exchange or be able to connect to local switches to originate and terminate a local call. Switched local access competition includes intraexchange competition and interexchange intralocal calling area competition where the intralocal calling area is dialed on a seven-digit basis.

The preservation and expansion of universal service, as well as the need to examine its definition, are inextricably connected with the issues in this proceeding and will be investigated simultaneously. Further, the Commission has previously stated the

possible need to eliminate or reduce the NTS rate.<sup>1</sup> This issue is also inextricably linked to the viability of local competition and will be investigated in this proceeding.

The Commission has, over the course of several proceedings, adopted policies establishing competition within certain segments of the telecommunications industry. In 1983, the Commission authorized the resale of intrastate WATS and restructured WATS rates, but declined to remove the prohibition of resale of private-line services.<sup>2</sup> In 1984, the Commission authorized interLATA toll competition.<sup>3</sup>

In 1988, the Commission investigated intraLATA toll competition.<sup>4</sup> On May 6, 1991, the Commission authorized intraLATA toll competition between carriers but limited its geographic scope to the local calling area but not within it.<sup>5</sup> By the same Order, the Commission authorized private line competition. On

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<sup>1</sup> Administrative Case No. 323, An Inquiry Into IntraLATA Toll Competition, An Appropriate Compensation Scheme for Completion of IntraLATA Calls By Interexchange Carriers, and WATS Jurisdictionality; Order of December 29, 1994.

<sup>2</sup> WATS is an acronym for Wide-Area Telephone Service. See Administrative Case No. 261, An Inquiry Into The Resale Of Intrastate Wide-Area Telecommunications Service; Order of September 2, 1983.

<sup>3</sup> Administrative Case No. 273, An Inquiry Into Inter and IntraLATA Intrastate Competition And Toll And Related Services Markets In Kentucky; Orders of May 25, 1984 and October 26, 1984.

<sup>4</sup> Administrative Case No. 323; Order of October 6, 1988.

<sup>5</sup> Id.

December 29, 1994, the Commission ordered implementation of intraLATA equal access competition on an end-office basis beginning July 1995 and ending June 1998.<sup>6</sup>

Responses to the attached information requests will assist the Commission in determining whether switched local access competition is viable and sustainable. The Commission will, at the same time, evaluate universal service issues to assure that the resolution of all issues is in the public interest.

IT IS THEREFORE ORDERED that:

1. All parties to Administrative Case No. 323 shall be parties to this docket. In addition, the Commission will require responses from all cellular telephone companies and all competitive access companies who have pending applications for authority to operate or are providing interstate service in Kentucky. The Commission also requests responses from cable television operators in Kentucky.

2. Responses to the questions in the Appendix to this Order shall be filed with the Commission within 90 days of the date of this Order.


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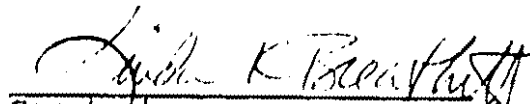
<sup>6</sup> Id.

Done at Frankfort, Kentucky, this 21st day of April, 1995.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director

## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN ADMINISTRATIVE CASE NO. 355 DATED APRIL 21, 1995.

#### A. Local Competition

1. a. Explain in detail whether local competition is in the public interest.

b. Provide any internal position papers, workpapers, academic papers, or other documents which support your position.

2. a. Describe in detail the essential market forces and regulatory treatment necessary for viable local competition.

b. Describe the market and other forces which are driving intraexchange competition.

c. Describe how technological development and deployment drive market evolution.

d. How would Kentucky markets evolve if the Commission took no action to facilitate or hinder intraexchange competition?

3. a. Should local exchange carriers ("LECs") be required to offer local exchange access or other services for resale? Explain.

b. If local exchange access or other services were offered for resale, how should the rates be determined (describe all cost allocation and other issues relevant to wholesale rates)?

4. If local competition is in the public interest, what should this Commission do to facilitate market transition to competition without creating undue hardship on either captive ratepayers or market participants? Provide a detailed explanation.

5. a. Identify and discuss potential dangers to either ratepayers or market participants during the market's transition to local competition.

b. Is there a particular risk to the quality of service to ratepayers? Explain.

6. Are there any statutory changes which should be made to facilitate local competition? Explain.

7. If intraexchange competition is implemented, how should the Subscriber Line Charge or Carrier Common Line Charge be collected?

8. a. Should new market entrants be subject to the same accounting rules as LECs? If yes, explain.

b. If no, what reporting requirements should apply to new market entrants? Explain.

9. Should a new market entrant be required to;

a. Provide equal access? Explain.

b. Average rates? Explain.

c. Offer their services for resale? Explain.

d. Unbundle their service offerings (cable and plain old telephone service ("POTS"))? Explain.

10. Are all new market entrants common carriers? Explain.

B. Interconnection, Number Portability and Other Bottleneck Issues

11. Explain in detail the ways LECs may inhibit a competitor's ability to compete in the local market. List each

perceived LEC bottleneck and suggest the fairest and most practical solution to each bottleneck.

12. Will a robust switched local access competition eliminate the local exchange bottleneck? Explain.

13. What parameters should be used to measure viable competition in the local exchange market? Explain.

14. Should new market entrants be entitled to interconnection options currently available between two incumbent LECs? Explain and describe any problems which could arise relating to interconnection options.

15. How should interconnection rates be determined? Explain the basis for your recommendation for each component of interconnection rates.

16. Is number portability immediately necessary for switched local access competition or only necessary for long-run viability? Explain.

17. What steps should the Commission take to mitigate any short-run or long-run problems resulting from the absence of number portability? Explain.

18. Are you participating in any FCC proceedings relating to number portability for toll and local services? If so, provide copies of your FCC filings.

C. Regulatory Issues

19. Should all providers of intraexchange service be subject to the same rules of operation and regulatory oversight? Explain.

20. Provide specific criteria to be used in determining when all intraexchange competitors should be subject to the same rules of operation and oversight.

21. Should the Commission presume that the LEC is always dominant and that its intraexchange competitors are non-dominant or should this be decided after investigation and based upon an explicit finding regarding the competitive nature of each specific service? Explain.

22. Should the Commission impose any infrastructure requirements related to local competition? Explain.

23. To what extent should artificial service market boundaries be maintained? Explain.

24. a. Should new market entrants be required to establish local calling areas? If yes, with what restrictions? Explain.

b. Should their local calling areas mirror those of the incumbent carriers? Explain.

c. Should they be required to provide certain types of services within a local calling area? Explain.

25. Describe the regulatory role the Commission should play in competitive markets.

a. Should firms be allowed to fail and, if so, should the Commission become involved? Explain.

b. How should quality of service issues be addressed?



c. What specific quality of service indicators should be monitored? Explain why they should be monitored.

d. Should any existing reporting requirements be relaxed? Provide an explanation for relaxing each requirement.

D. Cost Allocation and Subsidization Issues

26. Are non-traffic sensitive revenue requirement ("NTS") payments to LECs compatible with intraexchange competition? Explain.

27. Should the LEC local usage rate pass an imputation test using the rates the LEC wishes to assess to new market competitors? Explain.

28. a. Should LECs impute the costs of rights-of-way, pole attachments, conduits space, etc. in calculating local rates? Explain.

b. Are these costs currently included in local service rates? If so, on what basis? Explain.

29. Should basic local exchange rates reflect costs rather than value of service? Explain.

30. Should fixed costs now allocated to and combined with local loop costs be completely or partially reallocated back to those items responsible for cost origination? Explain.

a. Is the company aware of any ongoing proceeding or decision where this has occurred? If so, provide any documents or specific references to all known instances.

b. Explain how this would affect switched local access, toll access, and other LEC services.

31. Should switched local access competitors be required to offer local service on a flat rated basis? Explain.

32. a. Will the transition to local competition eliminate traditional price subsidies inherent in local rates? Explain.

b. Explain the steps the Commission could take to facilitate such a transition.

33. How should the Commission treat services which are offered by various competitors when the LEC or other authorized carrier has not sought reduced regulation under KRS 278.512 and 278.514? Explain.

34. Should consideration of intraexchange competition in Kentucky be delayed until a plan is formulated at the federal level, either through Congress or the FCC? If yes, why?

35. Should intraexchange competition be structured to avoid limiting service to business or high volume users? If no, why? If yes, how can this be accomplished?

E. Rate Deaveraging and Unbundling Local Loop Issues

36. a. Should intrastate toll rates be deaveraged? Explain.

b. What effect would the presence or absence of extended calling area services (EAS) have on the appropriate basis for intrastate toll rates? Explain.

37. If more than one entity is granted authority to provide switched local access, should all providers be granted the same technical and financial co-carrier interconnection and access

arrangements as accorded to traditional independent telephone companies? Explain.

38. If more than one entity may provide switched local access, should providers comply with the terms of current extended area service agreements? Explain.

39. Is the obligation to serve all customers under which certain companies now operate consistent and compatible with granting competitive access providers the same technical and financial co-carrier interconnection and access arrangements as accorded traditional independent telephone companies? Explain.

40. a. To implement local exchange switched access competition, is it necessary to fully unbundle local loop rates? Explain.

b. If the local loop need only be partially unbundled, identify those services which should be separately tariffed and provide the reason for each.

41. Will unbundling local loop rates affect smaller independent telephone companies differently than South Central Bell or GTE South? Explain.

F. Stranded Investment

42. Define "stranded investment."

a. Should plant be considered stranded if it is either idled or less used because customers migrate to more competitive services offered by the same company? Explain.

b. Should plant be considered stranded if it is either idled or less used because customers migrate to non-regulated competitive services, owned by a utility's parent? Explain.

c. Is there a material distinction between plant rendered obsolete by rapid technological change or other non-regulatory change versus regulatory change? Explain.

43. Explain in detail what must occur for plant investment to be considered stranded.

44. Describe in detail the fairest and most practical way to treat stranded investments.

45. Should shareholders bear any of the costs of stranded investment? Explain. If yes, how should stranded investment costs be apportioned between shareholders and ratepayers?

46. What amount of stranded investment would you incur if the Commission approved switched local access competition? Explain the assumptions behind your estimate.

G. Obligation to Serve and Carrier of Last Resort Issues

47. If more than one entity were granted authority to provide switched local access:

a. How should the obligation to serve be adjusted to reflect this change?

b. What effect would this have on rural areas?

c. How could the Commission ensure that Kentucky's rural areas have access to the services and service quality available in urban areas?

48. a. Should a dominant carrier be solely responsible for fulfilling the role of carrier of last resort? Explain.

b. If a dominant carrier is required to act as carrier of last resort, explain in detail how it should be compensated by other market participants and how their contribution should be calculated.

49. How should the obligation to serve be met if all locally competing carriers were considered nondominant? Explain.

50. Should intraexchange competitors be subject to the same service quality standards and service obligations as LECs? Explain.

#### H. Universal Service Issues

51. a. In a competitive market, what specific services should be available to all customers?

b. Should facilities to provide access to broadband information services be available to all customers?

52. Should the interconnection rate structure be set to contribute to the cost of universal service? Explain.

53. How will switched local access competition affect programs such as Lifeline and Linkup?

54. The rates of large business customers currently subsidize universal service. Customers paying these rates will be the initial targets of competitive access providers.

a. Should "cream skimming" be allowed? Explain.

b. Should entities offering services in an exchange subject to interexchange access competition be required to serve

all customers within that exchange? Explain. If so, should there be a time limit for fulfilling this requirement?

c. Should the entities offering service in an exchange subject to switched local access competition be required to serve all customers within an exchange? Explain. If so, should there be a time limit for fulfilling this requirement?

55. What steps should be taken to mitigate any potentially harmful effects of intraexchange access or switched local access competition on the universal availability of services?

56. What specific criteria should be used to determine who should participate in funding universal service in Kentucky?

a. Should a universal service fund specifically for Kentucky be established as the best way to fund universal service in Kentucky? Explain. If not, explain how universal service can be achieved and maintained.

b. What specific criteria should be used to determine how a universal service fund should be funded? How should the contribution amounts be determined?

c. What specific criteria should be used to determine how a universal service fund should be administered?

57. If more than one entity is granted authority to provide switched local access, should all carriers be required to serve all types of customers within a given geographic area? Explain.

a. If yes, how should the geographic area be defined? As a specific exchange? As the local calling area? Some other designation? Explain.

b. If yes, what is a reasonable time in which to require full service availability for all customers?

58. a. Estimate how many customers are served in each exchange in your territory.

b. Estimate how many customers are not served in each exchange in your territory.

c. If the market penetration rate in any exchange is below the national average, explain why and address such factors as the price of monthly service, installation charges, and privacy issues.

59. Should intraexchange competitors be required to accommodate 911 emergency services and the special needs of the deaf and disabled? If no, why not? If yes, how would this be done?

I. Nontraffic Sensitive Payments to Local Exchange Carriers

60. a. Should NTS charges be eliminated? If yes, should it be done at once or phased over a period of time? If phased, explain how long the period should be.

b. Explain the impact on your Return on Equity, Return on Net Investment, and T.I.E.R. of the complete elimination of NTS at one time using an unadjusted 1994 calendar year as a basis.

c. Provide a computation of the earnings measurement which the LEC would ask the Commission to use in determining its earning levels, using the unadjusted 1994 calendar year as a basis.

d. Provide an exhibit, using the same calendar year as a basis, comparing the LEC's adjusted and unadjusted revenue at that date to its authorized rate of return.

e. Provide alternative projections for the 5 years 1996-2000 of the impact of single and phased eliminations of NTS revenue.

61. Identify and explain the particular tariff rates the LEC would propose to adjust to maintain its earnings at levels authorized in its last rate proceeding.

62. Should interexchange and intraexchange carriers be required to pass access charge reductions resulting from the elimination of NTS charges to customers in the form of lower rates? If not, why?

63. Provide estimates of the impact elimination of NTS charges would have on toll charges.

64. If there are issues which are not addressed upon which any party would like to comment, or written materials which you would like to bring to the Commission's attention, you are invited to do so as part of your responses to this Order.